The Arena Proposal is I-91 Compliant

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The Arena is Compliant with I-91

- **We believe the annual return to the City/County is likely to be in the 8-10%**
  - This return significantly exceeds the return required by I-91 (30 year Treasury Return)
  - This significantly exceeds the return expected by the private investors on the aggregate private capital (over $600 million) required for the project

- **Using very conservative assumptions we believe the project will generate an annual return of 7.4% for the city**
  - Assumes only annual cash flow to the city is the debt service as Ancilary taxes generated merely offset the substitution effect
  - Assumes Arena is worthless at the end of 30 years, and is sold for raw land value only

- **We believe the analysis provided by the City Of Seattle Staff is inaccurate**
  - It is an undisputable fact that the Arena (owned by the City) will have value at the end of 30 years
  - It is an undisputable fact that there will be incremental taxes the city/county will receive as out of City/County arena patrons spend money on outside of the arena goods and services (Bars, restaurants, Hotels, rental cars, team merchandise, etc.)
  - **A financial analysis of the expected returns to the City/County that fails to acknowledge or account for these two sources of investment returns is incomplete/inaccurate.**

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I-91 Definition

- Consideration for the value of goods, services, real property or facilities provided or leased by the City of Seattle to for-profit professional sports organizations … must be at or above the fair value of the goods, services, real property or facility being provided or leased

- Fair Value is defined as no less than the rate of return on a U.S. Treasury Bond of 30 years duration at the time of inception – which is currently at 2.7%

- Return shall be computed on the net cash on cash return

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I-91 Compliance

- Investment Amount – City County are investing $200 million in the form of bond proceeds

- City and County will receive:
  1. Land and Arena building with a cost basis/replacement value of well over $300 million
  2. New tax revenue that would not exist were it not for the construction of the Arena and NBA and NHL Franchises being operated in Seattle
  3. Rent and additional rent to cover tax shortfalls over life of the investment
  4. Security provisions that will insure that the taxes and base rent paid meet the City/County's debt service cost on the $200 million
  5. Additional tax revenue from out of city/county arena patrons who purchase goods and services outside of the Arena

- **When all of these factors are taken into account, we believe the City/County's rate of return on the $200 million will be in the 8-10% range – well in excess of the 2.7% rate required**

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I-91 Compliance – Real Estate Appreciation

- **For this analysis we have made the very conservative assumption that the Arena will be worthless at the end of year 30 despite the MOU requirement for the Investor Group to maintain the Arena to standards acceptable to the City/County and the investors cost**
- We believe the cost to demolish the Arena would be roughly $12M in today's dollars, which would increase to $30M in year 31 assuming a 3% inflation rate
- Excluding all soft costs, we believe a conservative assumption for the cost/value of the arena land is $50 million
- Conversely, we have assumed the land will increase in value by 5% per year for 31 years
- At this 5% appreciation rate, this would equate to a future value of $227M in year 31
- Deducting the $30 million in demolition costs would yield a $197 million net value in year 31

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I-91 Compliance -Tax and Rent Revenue

- Under terms of the MOU, the combined tax and rent revenue must equal the debt service rate on $200 million – or $14 million in year 1 and growing at 1% per year for the first ten years and then flat for the remaining 20
- The City/County forecast new tax revenue to be $7M in year 1, while rent and additional rent will make up the balance ($7 million)
- The aforementioned Security Protections in the MOU reduce the risk that the city will not receive its debt service payment to close to zero
    - Reduced risk level needs to be taken into account in evaluating the City/County's return on the project

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I-91 Compliance – Substitution Effect is Minimal

- **The first factor here is that it is an undisputable fact that there is no substitution effect on the following:**
  - Sales tax on Arena construction
  - B&O Taxes on the NBA and NHL franchises that would not otherwise exist
  - Leasehold Excise Taxes
  - Increased Property Taxes on the value of the Arena
- **There is minimal substitution for Admissions Taxes**
  - The city does not collect admissions taxes for events at Safeco or Century Link, and the vast majority of competing entertainment options (restaurants, bars, etc.) do not charge admissions tax.
  - The only direct substitution from an admissions tax standpoint is from other events that charge admissions tax, like concerts or movie theaters– and that is minimal.
  - **While other forms of entertainment would be subject to sales taxes, the City's general fund's portion of Sales is just 0.85%, or one sixth the admissions tax rate.**
  - The substitution effect on admissions taxes needs to be reduced further to take into account that over 50% of Arena patrons come from outside the City Of Seattle (30%+ outside the county), which will be close to 100% new tax revenue to the City/County as out of City/County patrons bring their spending/taxes from outside the City/County to within the City/County tax jurisdiction
- **Sales of Merchandise and Concessions Substitution effect is Modest**: While there will be a substitution effect on the sales taxes on Merchandise and Concessions sales in the Arena from City/County arena patrons, substitution does not apply to the patrons that come from outside of the City/County's limits.
- **Accordingly, we believe the "substitution effect" on taxes would be less than 10%, or less than $1 million of the $10-11 million in year 1 tax revenue we are projecting (City/County's is projecting $7 million)**

I-91 Compliance–City/County Will Receive Ancillary New Taxes

It is an UNDISPUTABLE FACT The City/County Will Receive Incremental Tax Streams that are not a part of the MOU:

- **Sales Tax Revenue From Goods and Services outside of the Arena:** The sales tax on goods (i.e. team merchandise sales outside of the arena) and services (i.e. a drink at a bar after a game) from Arena Patrons from outside of the City/County is almost all incremental.
- **Hotel Taxes:** The city of Seattle receives 0.85% of the tax (County recieves 0.15%), although that is amount is currently deferred until the PFD bonds are paid off on Safeco and Century link.
- **Increased Property Values:** The city will see a further increase in its property tax revenue resulting from increased property values of land surrounding the new Arena. Our group alone has already purchased ancillary real estate surrounding the Arena at a significant premium to its appraised value.
- **Parking Taxes on street parking and non-affiliated lots:** The City will receive parking tax revenues from arena patrons for lots not covered under the city's MOU.
- **Multiplier Effect:** In total the salaries from the direct jobs created by the construction and operations of the Arena and incremental spending brought to the city from out of town Arena guests, will recycle through the local community and create further incremental revenues (as when Arena employees and construction workers spend their income) and thus new taxes for the city of Seattle. While opinions as to the correct multiplier to use vary, the typical range assumed by most economists is 1.5-2.0x
- **COMBINED WE BELIEVE THESE "ADDITIONAL TAXES" WOULD BE WELL IN EXCESS OF $1 MILLION AND SIGNIFICANTLY OUTWEIGH THE MODEST SUBSTITUTION EFFECT AND THUS SIGNIFICANTLY ENHANCE THE CITY/COUNTY's RETURN**

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I-91 – Conservative Return Calculation

- Based on the assumptions above, the annual "cash on cash" return would be calculated by as follows:
    - Total investment of $200 million in year 1
    - Income stream of $14 million growing at 1% per year for 10 years, and flat for years 11-30
    - Land sold for $197 million in year 31 after Arena is demolished (and deducting $30M in demolition costs)
    - This analysis gives no credit for ancillary/out of arena new tax revenue described on the previous slide other than that it will negate the substitution effect

- **Solving for the IRR of this stream of revenues yields an annual return to the city of 7.4%**
    - **If value of ancillary taxes was taken into consideration, we believe the City/Count's annual return would rise to 8-10% per year**
    - **We believe the City's annual return is significantly higher than the return on the aggregate private investment in the project**